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SUBJECT: SALALAH PINS ECONOMIC HOPES ON PORT, FREE ZONE,
AND TOURISM DEVELOPMENT

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SUMMARY

¶1. (U) The city of Salalah is banking on the growth of its port, free zone, and tourism industries in ongoing efforts to develop its economy. Government and private sector officials express confidence that proposed investments in these sectors will reshape Salalah by 2010 and position the region for sustained economic growth. End Summary.

PORT EXPANSION CONTINUES

¶2. (SBU) On October 8-9, Econoff and POLE Assistant traveled to the coastal city of Salalah in far southern Oman to review key development projects and plans with government and private sector stakeholders. The current anchor of Salalah's future is the Port of Salalah, which has risen to become a key transshipment hub for Maersk Sealand and its parent company A.P. Moller (APM). In 2005, the port handled 2.49 million 20-foot equivalent units (TEUs), ranking it as the world's 34th busiest terminal. Virtually all business is transshipment in nature, though it does provide import/export services for Salalah's few main industries, including Raysut Cement, Salalah Mills, and Dhofar Fisheries. The port also generates intermodal business for priority land shipments to Jebel Ali in Dubai and Bahrain, which shaves 2 to 3 days off of transit time.

¶3. (SBU) Marco Neelman, Planning Director for the Port of Salalah, confirmed that plans to expand port capacity remain on-track. The port will add two berths to the existing four currently in operation by the first quarter of 2008, with the fifth expected to come on-line by the first quarter of 2007. Once completed, the \$234 million expansion, shared roughly evenly between the Port of Salalah and the Omani government, will increase capacity by 1.8 million TEUs, bringing total capacity to 4.38 million TEUs. The Port of Salalah continues to contemplate building an additional three berths with a 2.99 million TEU capacity should demand continue to rise.

FREE ZONE TAKING SHAPE

¶4. (U) Complementing the port's growth is the formation of a free zone. Salalah Free Zone Company (SFZC) technical

advisor Shahzada Irshad Mohammed outlined the company's efforts to promote the free zone to prospective tenants. Mohammed noted that the master plan, embodied in a June 2005 Royal Decree, called for the development of two land parcels -- one approximately 800 hectares in size, the other roughly 1900 hectares. He commented that the SFZC was presently working with the government to finish the first phase of the project, which includes the establishment of roads and utility lines, as well as the leveling of industrial plots.

15. (U) Mohammed also highlighted SFZC's efforts to finalize a competitive incentive package to entice tenants. The package, which has yet to be officially approved by the Omani government, would include a 30-year tax holiday, duty-free treatment of imports and exports, permission for 100% foreign ownership, and tax-free repatriation of profits. Furthermore, Mohammed added that the SFZC has teamed up with the Ministry of Commerce and Industry to establish a one-stop shop for business registration, and has secured from the Ministry of Regional Municipalities, Environment, and Water Resources an expedited environmental impact assessment approval mechanism. Finally, Mohammed stated that SFZ investors would only be subject to a 10% Omanization requirement.

16. (SBU) With these incentives, Mohammed noted that the SFZC had already signed three anchor tenants: U.S.-based Octal Petrochemicals, India-based TVS Group, and government-supported Salalah Methanol. He remarked that SFZC also had finalized a contract with an herbal medicine producer and was close to concluding a contract with a steel company. With heavy industry "locked-up," Mohammed stated that the SFZC would turn its sights to developing downstream industries. In addition, through the June 2006 signing of a memorandum of understanding, the SFZC is exploring ways to partner with the successful Jebel Ali Free Zone.

TOURISM NUMBERS PROMISING

17. (U) Aside from port and free zone development, government officials are depending on the growth of tourism for further economic development. Akram Hassan Abdullah al-Murazza, Director General of Commerce and Industry for the Dhofar Governate, Ministry of Commerce and Industry, noted that by 2010, "Salalah will have another face." He highlighted government plans to promote tourism through the construction of a new \$60 million passenger airline terminal capable of handling 2 million passengers per year. Khalid al-Rawas, Director General of Tourism for the Dhofar Governate, Ministry of Tourism, stated that the government anticipates opening the new terminal by the time four new tourism projects come on-line. Egyptian-based ORASCOM is developing a resort complex that will include three five-star hotels, a marina, commercial complex, 18-hole golf course, and residential housing. Construction is set to begin at the start of 2007. Complementing this project will be the construction of an exclusive resort on the island of Suda (just off the coast from Salalah), a 200-room hotel in the nearby town of Mirbat, and a commercial complex in Salalah.

18. (SBU) Edward Chaaya, General Manager of the Salalah Crowne Plaza Hotel, echoed the potential of Salalah's tourism industry. He commented that awareness of Salalah as a destination was growing, in part due to successful efforts in attracting a weekly Swedish charter flight. With the addition of this seasonal service, Chaaya noted that his property's yearly occupancy rate had doubled from 40% to 80%. Coupled with the growth of the port and the development of the free zone, Chaaya remarked that both his hotel and the Salalah Hilton would be expanding by 100-200 rooms to accommodate increased demand. (Note: Chaaya currently turns away 15% of the Swedish tour operator's business. End Note.) He speculated that with the various hotel projects on tap, Salalah would mature as a tourist destination by 2015.

COMMENT

19. (SBU) Salalah's officials were eager to promote their city as an up and coming destination for economic growth, and recent gains in each of the highlighted sectors appear to support this enthusiasm. The Port of Salalah continues to grow in terms of cargo handled on a transshipment basis. The Port holds the long-term view that demand for its services will continue to outstrip supply, and with the expectation that the free zone will take hold, there's considerable justification for the port's further expansion. After being spurned by U.S.-based Hillwood in 2002, the SFZC has re-grouped and is now moving forward on developing the necessary infrastructure for its site and securing tenants. Tourism also appears to be well-positioned for further growth; the success of the Swedish charter operation and the substantial increase in visitors to this year's six-week long Khareef Festival (celebrating the monsoon rains) bode well for the completion of the proposed tourism-related projects.

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